APPALACHIAN REGIONAL COMMISSION

Financial Statements

September 30, 2009 and 2008

With Independent Auditors' Report

Appalachian Regional Commission
Table of Contents
September 30, 2009 and 2008

	Page(s)
Independent Auditors' Report	1-6
Financial Statements	
Balance Sheets	7
Statements of Net Cost	8
Statements of Changes in Net Position	9-10
Statement of Budgetary Resources	11
Notes to Financial Statements	12-22

WithumSmith+Brown
A Professional Corporation
Certified Public Accountants and Consultants

8403 Colesville Road, Suite 340
Silver Spring, Maryland 20910-6331 USA
301 585 7990 . fax 301585 7975
www.withum.com

Additional Offices in New Jersey
New York and Pennsylvania

INDEPENDENT AUDITORS' REPORT

To the Commission Members
Appalachian Regional Commission
Washington, D.C.

In our audit of the Appalachian Regional Commission (ARC) for the fiscal year (FY) 2009, we found:

- The financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- ARC made significant progress in addressing FY 2008 issues and accordingly only two significant deficiencies in internal control over financial reporting remained open in FY 2009; and
- no instances of non-compliance with laws and regulations were found.

The following sections discuss each of these conclusions in more detail.

Opinion on Financial Statements

We have audited the accompanying balance sheets of ARC as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. The financial statements are the responsibility of ARC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

ARC, a parent agency, was unable to obtain documentation supporting the funds transferred to the U.S. Department of Transportation (DOT), its child agency as of September 30, 2008. In addition, DOT was unable to provide a detailed schedule supporting its ARC grant balances. As a result, we were not able to satisfy ourselves as to the amounts reported in the FY 2008 financial statements related to DOT grants.

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In our opinion, except for the effects on the FY 2008 financial statements of such adjustments, if any, as would have been determined to be necessary had we been able to satisfy ourselves about the matters discussed in the third paragraph in this section, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Appalachian Regional Commission as of September 30, 2009 and 2008, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in Management's Discussion and Analysis and Required Supplementary Stewardship Information sections are not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular A-136. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

The information in the Message from the Federal Co-Chair, Performance Report, Other Accompanying Information and Appendices are presented for purposes of additional analysis and are not required as part of the financial statements. This information has not been subjected to auditing procedures, and accordingly, we express no opinion on it.

Report on Internal Control over Financial Reporting

In planning and performing our work, we considered ARC's internal control over financial reporting as a basis for developing our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of ARC's internal control over financial reporting. Accordingly, we do not provide an opinion on the effectiveness of ARC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by ARC's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. Exhibits I and II presents the status of the prior year material weaknesses and significant deficiencies.

Report on Compliance and Other Matters

ARC management is responsible for complying with laws and regulations applicable to the agency. We are responsible for performing tests of its compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and certain other laws and regulations specified in OMB Bulletin No. 07-04. Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

We noted certain other matters that we have reported to the Commission Members and management of ARC in a separate letter dated May 7, 2010.

This report is intended solely for the information and use of ARC's management, the Office of Management and Budget, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Withum Smith + Brown, PC

May 7, 2010

Exhibit I

Status of Prior Year Material Weaknesses and Significant Deficiencies
(Current Year Significant Deficiencies)

Prior Year Condition	As Reported at September 30, 2008	Status as of September 30, 2009
Lack of Full Implementation of Parent/Child Reporting Requirements	**Material Weakness:** ARC was unable to verify the integrity of the child agency data or gain an understanding of the internal controls in place related to these allocated funds. Because of ARC's inability to verify the integrity of the data, ARC management was not in a position to take responsibility for and to make representations concerning the fair presentation of the child agency data. Although ARC had been able to obtain financial information from its child agencies and to verify the data, DOT's inability to provide detailed support for its grants balances resulted in a qualified opinion on ARC's FY 2008 financial statements.	**Changed to a Significant Deficiency:** ARC continues to make progress in addressing child agency reporting deficiencies noted in the prior years. In FY 2009, ARC had ongoing issues with financial information provided by the Department of Transportation (DOT). The errors that were corrected on ARC's records through our prior year audit were not corrected by DOT in a timely manner. Because this issue was not resolved until February 2010, the issuance of this report was delayed.
Weaknesses in IT General Controls	**Significant Deficiency:** During our FY 2008 audit, we noted that ARC has not yet performed a detailed risk assessment, which would help ARC assess the likelihood and impact of potential vulnerabilities, so that ARC can better determine how to allocate and prioritize its limited resources. This risk assessment should then drive how ARC will address the control weaknesses we identified in our audit, and help decide the most cost effective ways to reduce the associated risks. Also, during FY 2008, we performed certain tests over ARCs IT general controls impacting its key financial and support systems. The two primary systems we focused on are the GLOWS accounting system and the ARCNET grants management system. We identified the following specific areas where the controls are not in place or not operating effectively: 1) security management; 2) access controls; 3) configuration / change management; 4) segregation of duties; and 5) contingency planning.	**Remains a Significant Deficiency.** ARC continued to make progress during FY 2009 to improve and upgrade the management of its information systems and either completed or began work in many key areas of implementation in correcting deficiencies noted in prior years. Some of the key activities began or completed in FY 2009 include: 1) completion of an information system security categorization; 2) initiation of a detailed risk assessment; 3) implementation of a virtualized environment; 4) migration to a new network security firewall appliance; 5) implementation of a new VPN system; 6) training of ARC employees on security awareness; and 7) implementation of a power management system. However, at the end of FY 2009, the following specific areas still remain where controls were not yet in place or not operating effectively: 1) security management; 2) access controls; 3) configuration/change management; 4) segregation of duties; and 5) contingency planning. ARC has taken steps to improve each of these five areas, most notably, the implementation of an accounting service provider (GSA) beginning in FY 2010 to replace the GLOWS accounting system,

Prior Year Condition	As Reported at September 30, 2008	Status as of September 30, 2009
		which was a source of many of these deficiencies. The evaluation of the controls related to the new accounting system and service provider will occur during the FY 2010 audit. As a result of these control weaknesses, ARC is subject to the risk that data could be accessed, transmitted or manipulated by unauthorized personnel and the risk that systems could become unstable or unavailable. The specific nature of these weaknesses and the associated details has been communicated in a separate letter to the Commission Members and management due to the sensitive nature and the potential misuse of this information. There were no new weaknesses identified in FY 2009 that were not also reported in our FY 2008 audit.

Exhibit II

Prior Year Significant Deficiencies and Non-Compliance with Significant Laws and Regulations

Prior Year Condition	As Reported at September 30, 2008	Status as of September 30, 2009
Controls Over Compliance with Federal Reporting Requirements Not Fully Implemented	**Significant Deficiency:** There was a deficiency related to reporting information required by OMB Circular A-136. ARC accounting staff prepared a reconciliation of budgetary and proprietary data; however, ARC still has difficulty reconciling its proprietary with its budgetary data which resulted in a $1.2 million unexplained difference at year-end.	**No longer considered a Significant Deficiency**. This issue has moved to the Management Letter. Going forward ARC will no longer prepare the reconciliation. As of October 1, 2009, ARC moved its accounting function to GSA's shared services. GSA will enter ARC's financial transactions, generate the financial statements (including the reconciliation of the proprietary to the budgetary), and submit ARC's SF-224 and FACTS II Reports.
Lack of Adequate Grant Accrual Methodology	**Significant Deficiency:** To record a grant accrual as of September 30, 2008, ARC collected all the financial reports received from the grantees from October 1, 2008 through February 15, 2009 (4 ½ months after the end of the fiscal year). ARC did not have an effective process to record grant accruals on a quarterly basis which resulted in an understatement of its liabilities and expenses on the interim and year-end financial statements provided to OMB.	**No longer considered a Significant Deficiency**. This issue has moved to the Management Letter. ARC has developed a reasonable methodology to estimate their accrual and will continue with an analysis of grant payments until they develop a definitive and defendable grant accrual rate.
Anti-Deficiency Act Violation	**Significant Deficiency:** During FY 2008, ARC management disclosed that several Anti-Deficiency Act violations had occurred. The ARC Federal Co-Chair reported the violations along with all relevant facts and a statement of actions to the OMB and is waiting for OMB guidance prior to reporting the violations to the President of the United States, Congress and the Comptroller General of the United States as required by 31 U.S.C. §1351.	**This finding is closed.**

Appalachian Regional Commission
Balance Sheets
September 30, 2009 and 2008

	2009	2008
Assets		
Intragovernmental		
Fund balance with U.S. Treasury (*Notes 1 & 2*)	$ 161,967,586	$ 155,078,061
Advances (*Notes 1 & 3*)	12,329,479	11,850,630
Total intragovernmental	174,297,065	166,928,691
Cash in commercial institutions (*Note 1*)	31,012	87,820
Advances (*Notes 1 & 3*)	29,767,568	30,868,453
Equipment, net (*Note 1*)	-	-
	$ 204,095,645	$ 197,884,964
Liabilities and Net Position		
Intragovernmental		
Advances (*Notes 1 & 4*)	$ 626,729	$ 658,072
Total intragovernmental	626,729	658,072
Accounts payable (*Notes 1 & 4*)	3,460,229	3,620,067
Benefits due and payable (*Notes 1, 4 & 5*)	1,567,145	2,374,812
Other	31,012	75,304
	5,058,386	6,070,183
Total liabilities	5,685,115	6,728,255
Unexpended appropriations	117,867,086	108,140,376
Cumulative results of operations-earmarked fund (*Note 7*)	981,356	(398,346)
Cumulative results of operations	79,562,088	83,414,679
Total net position	198,410,530	191,156,709
	$ 204,095,645	$ 197,884,964

The Notes to Financial Statements are an integral part of these statements.

Appalachian Regional Commission
Statements of Net Cost
Years Ended September 30, 2009 and 2008

	2009	2008
Net cost of operations:		
Program costs	$ 71,534,461	$ 74,981,260
Less: earned revenues	3,788,282	4,636,738
Net cost of operations	$ 67,746,179	$ 70,344,522

The Notes to Financial Statements are an integral part of these statements.

Appalachian Regional Commission
Statement of Changes in Net Position
Year Ended September 30, 2009

	2009		
	Earmarked Fund	**All Other Funds**	**Consolidated Total**
Cumulative results of operations, beginning	$ (398,346)	$ 83,414,679	$ 83,016,333
Budgetary financing sources:			
Appropriations used	-	65,273,290	65,273,290
Transfers in/out without reimbursement	3,762,000	(3,762,000)	-
Total financing sources	3,762,000	61,511,290	65,273,290
Net cost of operations	(2,382,298)	(65,363,881)	(67,746,179)
Net change	1,379,702	(3,852,591)	(2,472,889)
Cumulative results of operations, ending	**$ 981,356**	**$ 79,562,088**	**$ 80,543,444**
Unexpended appropriations, beginning	$ -	$ 108,140,376	$ 108,140,376
Budgetary financing sources:			
Appropriations received	-	75,000,000	75,000,000
Other adjustments	-	-	-
Appropriations used	-	(65,273,290)	(65,273,290)
Total budgetary financing sources	-	9,726,710	9,726,710
Total unexpended appropriations	-	117,867,086	117,867,086
Net position	**$ 981,356**	**$ 197,429,174**	**$ 198,410,530**

The Notes to Financial Statements are an integral part of these statements.

Appalachian Regional Commission
Statement of Changes in Net Position
Year Ended September 30, 2008

	2008		
	Earmarked Fund	**All Other Funds**	**Consolidated Total**
Cumulative results of operations, beginning	$ (1,156,994)	$ 84,027,762	$ 82,870,768
Budgetary financing sources:			
Other adjustments			-
Appropriations used	-	70,490,087	70,490,087
Transfers in/out without reimbursement	3,608,000	(3,608,000)	-
Total financing sources	3,608,000	66,882,087	70,490,087
Net cost of operations	(2,849,352)	(67,495,170)	(70,344,522)
Net change	758,648	(613,083)	145,565
Cumulative results of operations, ending	**$ (398,346)**	**$ 83,414,679**	**$ 83,016,333**
Unexpended appropriations, beginning	$ -	$ 110,644,441	$ 110,644,441
Budgetary financing sources:			
Appropriations received	-	73,032,000	73,032,000
Other Adjustments	-	(5,045,978)	(5,045,978)
Appropriations used	-	(70,490,087)	(70,490,087)
Total budgetary financing sources	-	(2,504,065)	(2,504,065)
Total unexpended appropriations	-	108,140,376	108,140,376
Net position	**$ (398,346)**	**$ 191,555,055**	**$ 191,156,709**

The Notes to Financial Statements are an integral part of these statements.

Appalachian Regional Commission
Statements of Budgetary Resources
Years Ended September 30, 2009 and 2008

	2009	2008
Budgetary Resources		
Unobligated balance brought forward October 1	$ 28,796,944	$ 24,875,320
Recoveries of prior year unpaid obligations	8,242,388	8,083,423
Budget authority		
Appropriation	82,524,000	80,248,000
Spending authority from offsetting collections		
Earned		
Collected	1,990,031	1,767,181
Total budgetary resources	$ 121,553,363	$ 114,973,924
Status of Budgetary Resources		
Obligations incurred	$ 92,196,158	$ 86,176,980
Unobligated balance available	26,925,233	25,496,404
Unobligated balance not available	2,431,972	3,300,540
Total status of budgetary resources	$ 121,553,363	$ 114,973,924
Change in Obligated Balance		
Unpaid obligated balance, net brought forward October 1	$ 126,281,117	$ 131,317,085
Obligations incurred, net	92,196,158	86,176,980
Less: Gross outlays	(77,662,809)	(83,175,715)
Less: Recoveries of prior year unpaid obligations, actual	(8,242,388)	(8,083,422)
Less: Uncollected customer payments from federal sources	-	46,189
Unpaid obligated balance, net end of period	$ 132,572,078	$ 126,281,117
Net Outlays		
Gross outlays	$ 77,662,809	$ 83,175,715
Offsetting collections	(1,990,032)	(1,813,371)
Offsetting receipts	(7,550,281)	(4,720,432)
Net outlays	$ 68,122,496	$ 76,641,912

The Notes to Financial Statements are an integral part of these statements.

1. Summary of Significant Accounting Policies

Reporting entity

The Appalachian Regional Commission (ARC) was established under the Appalachian Regional Development Act of 1965, as amended; the Appalachian Regional Development Reform Act of 1998; and the Appalachian Regional Development Act Amendments of 2002. ARC is a regional development agency designed to function as a federal, state, and local partnership. ARC is not a federal executive branch agency (as defined in Title 5 and 31 of the United States Code and by the Department of Justice).

Commission members are comprised of a federal member (Federal Co-Chair), who is appointed by the President of the United States, and the governors of each of the 13 states in the Appalachian Region. The state members elect a State Co-Chair from their members. ARC has an Executive Director and Program and Administrative Offices that implement the policies and procedures established by the Federal and State Co-Chairs. ARC personnel are comprised of both federal and non-federal employees.

ARC supports economic and social development in the Appalachian Region. The Appalachian Region is a 200,000 square mile region from the Appalachian Mountains in Southern New York to Northern Mississippi. The ARC programs affect approximately 420 counties located in 13 states including all of West Virginia and parts of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia.

Fund accounting structure

ARC's financial activities are accounted for by utilizing individual funds and fund accounts in reporting to the U.S. Treasury and the Office of Management and Budget. For financial statement purposes, these funds are classified as an earmarked fund and all other funds. Earmarked funds are financed by specifically identified revenues often supplemented by other financing sources which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Government's general revenues. ARC’s earmarked fund and all other funds are identified as follows:

Earmarked fund

A trust fund was established by the U.S. Treasury under the authority of the Appalachian Regional Development Act of 1965, to receive, hold, invest, and disburse monies collected to cover the administrative expenses of ARC. The administrative expenses are paid equally by the federal government and the states in the Appalachian Region as determined annually by ARC.

All other funds

All other funds consist of area development program funds and funding for the Office of the Federal Co-Chair and the Office of Inspector General.

Budgets and budgetary accounting

ARC programs and activities are funded through no-year appropriations and contributions from the 13 states in the Appalachian Region. Federal funds are available without fiscal year limitation and remain available until expended. Because of the no-year status of the funds, unobligated amounts are not returned to the U.S. Treasury.

Basis of accounting and presentation

These financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources of ARC in accordance with U.S. generally accepted accounting principles (GAAP) and form and content requirements of OMB Circular A-136 *Financial Reporting Requirements*. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory

Board (FASAB), which is the official standard-setting body for the federal government. The financial statements have been prepared from the books and records of ARC, and include the accounts of all funds under the control of the ARC reporting entity.

U.S. generally accepted accounting principles encompass both accrual and budgetary transactions. Under accrual accounting, revenues are recognized when earned, and expenses are recognized when incurred. Budgetary accounting facilitates compliance with legal constraints on, and controls over, the use of federal funds. These financial statements are prepared by ARC pursuant to OMB directives and used to monitor ARC's use of budgetary resources.

Fund Balance with U.S. Treasury
ARC's cash receipts and disbursements are processed by the U.S. Treasury. Funds with U.S. Treasury represent obligated and unobligated no-year funds available to finance allowable current and future expenditures.

Cash in Commercial Institutions
ARC uses commercial bank accounts to accommodate collections and payments that cannot be processed by the U.S. Treasury. Cash in commercial institutions totaled $31,012 and $87,820 at September 30, 2009 and 2008, respectively.

Advances
ARC advances funds to other federal agencies for work performed on its behalf under various reimbursable agreements. These intra-governmental advances are recorded as an asset, which is reduced when actual expenditures or the accrual of unreported expenditures are recorded.

ARC also has advances made to grantees for revolving loan fund payments to provide pools of funds to be made available to grantees to create and retain jobs. These advance payments are recorded by ARC as an asset, which is reduced if the revolving fund is terminated.

Equipment
ARC’s equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The capitalization threshold is $50,000. All equipment was fully depreciated at September 30, 2009 and 2008.

Liabilities
Liabilities represent probable amounts to be paid by ARC as a result of past transactions. Liabilities covered by budgetary or other resources are those for which Congress has appropriated funds or funding is otherwise available to pay amounts due.

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding.

Accounts Payable
Accounts payable consists of amounts owed to grantees and amounts owed to federal and non-federal entities for goods and services received by ARC.

Benefits Due and Payable:
Unfunded Annual Leave
Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. To the extent current or

prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

Retirement Benefits

ARC's federal and certain non-federal employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and the Social Security and the Thrift Savings Plan program automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected to participate in the FERS and Social Security or to remain in CSRS.

All federal and certain non-federal employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and ARC makes a mandatory one percent contribution to this account. In addition, ARC makes matching contributions, ranging from one to four percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, ARC remits the employer's share of the required contribution.

The Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to ARC. OPM also provides information regarding the full cost of health and life insurance benefits. ARC does not recognize the imputed cost of pension and other retirement benefits during the employees' active years of service as this amount is considered to be immaterial. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of OPM.

ARC also has a Defined Benefit Pension Plan which was open to all employees not participating in CSRS and FERS. ARC uses a July 1 measurement date for its plan.

In February 2000 ARC established a 401(k) retirement plan that mirrors FERS. The plan covers substantially all non-federal employees. Employees are eligible to participate in and are fully vested in the plan upon employment. ARC's funding policy is to make a 3% contribution of total salary and a matching 3% of the first 50% of the participants' contributions to the plan up to 6% of total salary.

Parent Child Reporting

ARC is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. ARC allocates funds as the parent agency to the U.S. Departments of Transportation, and Housing and Urban Development, as well as the Rural Development Agency, U.S. Army Corps of Engineers and the Economic Development Agency. Additionally, ARC receives allocation transfers, as the child agency from the U.S. Department of Treasury to cover Appalachian Development Highway System administrative costs.

Net Position
Net position is the residual difference between assets and liabilities and is comprised of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. The cumulative results of operations are the net results of ARC's operations since inception.

Net Cost of Operations
Earned revenues arise from the collection of state contributions and are deducted from the full cost of ARC's major programs to arrive at net program cost. Earned revenues are recognized by ARC to the extent reimbursements are payable from the public, as a result of costs incurred or services performed on the public's behalf.

Budgetary Financing Sources
Budgetary financing sources other than earned revenues provide funding for ARC's net cost of operations and are reported on the Statement of Changes in Net Position. These financing sources include amounts received from Congressional appropriations to support its operations. A financing source is recognized for these appropriated funds received.

Use of Estimates
Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Exempt Status
As an agency of the federal government, ARC is exempt from all taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

Reclassifications
Certain items at September 30, 2008 have been reclassified to conform to the presentation at September 30, 2009. There was no effect on the changes in net position.

2. Fund Balance with Treasury

Funds with U.S. Treasury at September 30 consisted of the following:

	2009	2008
Fund balances		
Trust fund	$ 2,291,054	$ 1,923,267
Appropriated funds	159,638,228	153,154,794
Total entity fund balance with treasury	161,929,282	155,078,061
Non-entity fund balance with treasury	38,304	-
Total fund balance with treasury	$ 161,967,586	$ 155,078,061

Status of fund balance with Treasury		
Unobligated balance:		
Available	$ 26,925,233	$ 25,496,404
Unavailable	2,431,971	3,300,540
Obligated balance not yet disbursed	132,572,078	126,281,117
Non-budgetary	38,304	-
Total	$ 161,967,586	$ 155,078,061

3. Advances

Advances at September 30 consist of the following:

	2009	2008
Intergovernmental		
Advances to the U.S. Army Corps of Engineers	$ 1,302,962	$ 1,652,257
Advances to the Tennessee Valley Authority	10,876,517	10,198,373
Advances to the Environmental Protection Agency	150,000	-
	12,329,479	11,850,630
Other		
Advances to grantees to finance future program expenditures	29,767,568	30,868,453
Total	$ 42,097,047	$ 42,719,083

4. Liabilities

The accrued liabilities of ARC are comprised of program expense accruals, payroll accruals and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

Liabilities at September 30 consist of the following:

	2009	2008
Advances		
Advances from the Centers for Disease Control	$ 564,406	$ 595,749
Advances from the National Endowment for the Arts	62,323	62,323
Total intra-governmental	626,729	658,072
Benefits due		
Accrued health and flexible spending benefits	87,323	87,820
Accrued salaries and benefits	318,790	243,385
Unfunded annual leave	460,957	467,544
Unfunded pension liability	700,075	1,576,063
Total benefits due	1,567,145	2,374,812
Payments due to grantees to finance program expenditures	3,460,229	3,620,067
Other agency transactions	31,012	75,304
Total liabilities	$ 5,685,115	$ 6,728,255

Liabilities not covered by budgetary resources consist of the following:

	2009	2008
Unfunded annual leave	$ 460,957	$ 467,544
Unfunded pension liability	700,075	1,576,063
Total liabilities not covered by budgetary resources	$ 1,161,032	$ 2,043,607

5. Retirement Plans

Federal

ARC participates in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) for federal and certain non-federal employees. The CSRS and FERS plans are administered by the OPM. ARC's contributions to these plans for FY 2009 were $26,521 and $96,717 for CSRS and FERS, respectively and contributions for FY 2008 were $39,056 and $83,534 for CSRS and FERS, respectively.

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FEGLI), also administered by OPM. ARC pays a portion of the cost of current employees. Post-retirement benefits are paid by OPM. No amounts have been recognized in the financial statements for these imputed costs as they are not deemed material. ARC's contributions to these plans for FY 2009 were $66,785 and $2,030 and for FY 2008 were $69,638 and $2,099 for FEHB and FEGLI, respectively

ARC does not report in its financial statements CSRS, FERS, FEHB or FEGLI assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees.

ARC also contributed $36,864 and $33,977 to the Federal Thrift Savings plan for all eligible employees for the years ended September 30, 2009 and 2008, respectively.

Non-Federal

The following table presents the pension benefit expense for the defined benefit pension plan by component for fiscal years 2009 and 2008:

	2009	2008
Service cost	$ 536,183	$ 553,305
Interest cost	705,990	664,839
Expected return	(454,788)	(421,202)
Amortization of prior service cost	418,870	418,870
Recognized loss	67,132	37,909
Net periodic benefit expense	$ 1,273,387	$ 1,253,721

The following table presents the pension liability by component for fiscal years 2009 and 2008:

	2009	2008
Pension liability at October 1	$ 1,576,063	$ 2,327,001
Net periodic benefit expense	1,273,387	1,253,721
Contributions	(2,149,375)	(2,004,659)
Pension liability at September 30	$ 700,075	$ 1,576,063

	2009	2008
Additional Information		
Benefit obligation	$ (13,814,271)	$ (10,682,35)
Fair value of plan assets	7,077,988	5,797,033
Funded status	$ (6,736,283)	$ (4,885,324)
Employer contribution	$ 2,129,249	$ 1,985,638
Participant contribution	20,126	19,021
Benefits paid	1,193,575	4,488
Net periodic benefit expense	1,273,387	1,253,721

The accumulated benefit obligation was $11,8881,525 and $9,460,083 at September 30, 2009 and 2008, respectively.

Weighted-average of economic assumptions used to determine benefit obligations at September 30:

	2009	2008
Discount rate	5.50%	7.00%
Rate of compensation increase	3.00%	3.00%

Weighted-average of economic assumptions used to determine net periodic benefit cost for the years ended September 30:

	2009	2008
Discount rate	7.00%	6.25%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

Historical returns of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted-average rate was developed based on those overall rates and the target asset allocation plan.

Plan Assets

Pension plan weighted-average asset allocations at September 30 are as follows:

	2009	2008
Asset Category		
Cash	16.00%	10.00%
Bonds	32.00%	31.00%
Equity securities	47.00%	40.00%
International stocks		14.00%
Real estate	5.00%	5.00%
Total assets	100.00%	100.00%

ARC's investment strategy is a long-term, risk-controlled approach using diversified investment options with a minimal exposure to volatile investment options like derivatives. ARC expects to contribute $2,129,249 to the plan in FY 2010.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Fiscal Year		Pension Benefits
2010	$	5,464,047
2011		548,019
2012		1,694,559
2013		18,792
2014		620,874
Years 2015 – 2019		6,218,768

ARC contributed $190,502 and $181,753 to the 401(k) plan for the years ended September 30, 2009 and 2008, respectively.

6. Operating Lease

ARC's lease for its office commenced on January 1, 2007 and extends through December 31, 2016. It provides for increases in annual base rent of 2 percent per year beginning January 1, 2008, and every year thereafter for the remainder of the lease term. The future minimum lease payments required under this lease are as follows:

Fiscal Year		Amount
2010	$	795,146
2011		810,547
2012		829,781
2013		847,426
2014		864,375
Thereafter		2,006,890
Total	$	6,154,165

Rent expense for the years ended September 30, 2009 and 2008 was $780,046 and $707,726, respectively.

7. Earmarked Fund

Condensed financial information for the ARC trust fund for the years ended September 30 is:

Balance Sheet				
Assets		**2009**		**2008**
Fund balance with U.S. Treasury	$	2,291,054	$	1,923,267
Cash in commercial institutions		31,012		87,820
Total assets		2,322,066		2,011,087
Liabilities and net position				
Accounts payable		41,219		217,477
Benefits due and payable		1,299,491		2,191,956
Cumulative results of operations		981,356		(398,346)
Total liabilities and net position	$	2,322,066	$	2,011,087

Statement of Net Cost		
Program costs	$ 6,145,275	$ 6,785,916
Less: earned revenues	3,762,977	3,936,564
Net cost of operations	$ 2,382,298	$ 2,849,352
Statement of Changes in Net Position		
Net position, beginning of period	$ (398,346)	$ (1,156,994)
Transfers in/out without reimbursement	3,762,000	3,608,000
Net cost of operations	(2,382,298)	(2,849,352)
Change in net position	1,379,702	758,648
Net position, end of period	$ 981,356	$ (398,346)

8. Status of Budgetary Resources

A. Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources consist of the following:

	2009	2008
Direct obligations		
Category A	$ 2,010,806	$ 5,237,449
Category B	82,937,649	73,709,286
Exempt	7,247,703	7,230,245
Total direct obligations	$ 92,196,158	$ 86,176,980

B. Permanent Indefinite Appropriations

The Commission's permanent indefinite appropriation includes the trust fund. These funds are described in Note 8.

C. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the U.S. Government (President's Budget). The Budget of the U. S. Government, with the Actual column completed for 2008 and 2007, was reconciled to the Statement of Budgetary resources as follows:

	2008			
(Dollars in Millions)	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources	$ 115	$ 86	$ 4	$ 76
Reconciling Items				
Offsetting collections and receipts	(1)	2	(2)	5
Budget of the U.S. Government	$ 114	$ 88	$ 2	$ 81

	2007			
(Dollars in Millions)	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources	$ 109	$ 84	$ 2	$ 80
No Reconciling Items				
Budget of the U.S. Government	$ 109	$ 84	$ 2	$ 80

9. Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders are $128,831,106 and $122,343,662 as of September 30, 2009 and 2008, respectively.

10. Subsequent Events

ARC has evaluated subsequent events occurring after the balance sheet date and through the date of May 7, 2010, the date the financial statements were available for release. Based upon this evaluation, ARC has determined that no subsequent events have occurred which require disclosure in the financial statements.

11. Reconciliation of Net Cost to Budget

ARC presents the Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Statement of Budgetary Resources.

	2009	2008
Resources Used to Finance Activities:		
Budgetary resources obligated		
Obligations incurred	$ 92,196,158	$ 86,176,980
Less: spending authority from offsetting collections and recoveries	10,232,419	9,850,604
Obligations net of offsetting collections and recoveries	81,963,739	76,326,376
Less: offsetting receipts	7,550,281	4,636,738
Obligations net of offsetting collections and recoveries	74,413,458	71,689,638
Net obligations	74,413,458	71,689,638
Total resources used to finance activities	$ 74,413,458	$ 71,689,638
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered by not yet provided	$ 8,189,113	$ 38,445,601
Resources that fund expenses recognized in prior periods	963,604	(750,938)
Total resources used to finance items not part of the net cost of operations	9,152,717	37,694,663
Total resources used to finance the net cost of operations	$ 65,260,741	$ 33,994,975
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components requiring or generating resources in future periods		
Increase in annual leave liability	$ -	$ (97,498)
Other	20,776	(684)
Total components of net cost of operations that will require or generate resources in future periods	20,776	(98,182)
Components requiring or generating resources:		
Depreciation	-	44,563
Reconciling Items:		
4902 adjustments	2,351,388	41,408,796
4901 adjustments		(3,608,000)
HHS budgetary adjustment		(105,908)
Other	113,274	(1,291,722)
Net components of net cost of operations that will not require or generate resources in the current period	2,464,662	36,447,729
Net Cost of Operations	$ 67,746,179	$ 70,344,522